

#63, 4 May 2000

A publication of the International Centre for Policy Studies

ICPS newsletter

New procedures ensuring tax payment should replace the Kartoteka debt requisitioning system

The draft law of Ukraine "On the procedures for collecting taxpayer debts to the budget and state target funds" is focused on developing modern mechanism which would guarantee the payment of tax liabilities. Such mechanism, based on the principle is that every member of society is responsible for tax payment, should replace the system of debt seizure without acceptance, i.e. the Kartoteka debt requisitioning system. Mr. Serhii Teriokhin, first deputy head of the Verkhovna Rada Committee on Finance and Bank Activities, presented the main ideas of the draft law at ICPS's seminar. Ms. Olena Ivaschenko, expert of the Coordination and Analysis Center for Ukrainian Business Associations, introduced the taxpayer point of view

The authors of the draft law of Ukraine "On the procedures for collecting taxpayer debts to the budget and state target funds" tried to make provisions for the widest spectrum of relationship between tax authorities and taxpayers. For this reason the draft law includes the tax administration provisions in general and

sometimes goes beyond the procedures for collection of tax debts. The draft law will be used as the basis for the related chapter of the Tax Code.

This draft law introduces the procedure for reconciliation of tax amount to be paid. According to the draft, a taxpayer determines the amount of taxes to be paid

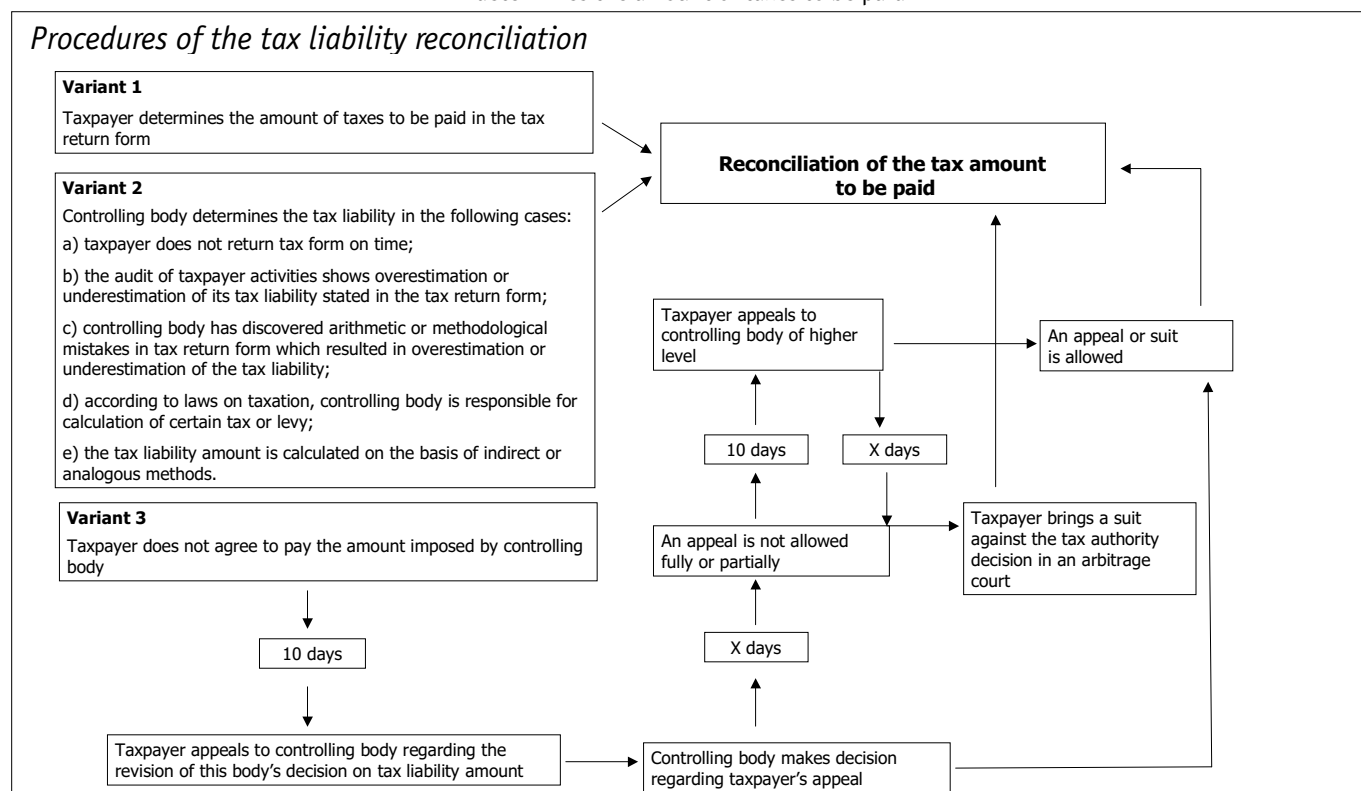
in a tax return form. If taxpayer does not return tax form or the tax administration doubts validity of the form information, controlling body determines the tax liability. Taxpayer has the right to appeal the decision of controlling body (see. Chart).

In order to ensure an appropriate payment of taxes, the draft law introduces the tax collateral mechanism. Tax collateral takes place under the following conditions:

- taxpayer does not return tax form on time;
- taxpayer does not pay taxes amounted to the sum as stated in its tax return form;
- taxpayer does not pay taxes as imposed by controlling body.

According to the authors of the draft law,

Procedures of the tax liability reconciliation



all enterprise assets should be pledged. However, experts of the Coordination and Analysis Center for Ukrainian Business Associations believe, that this provision contradicts the legislation on bankruptcy and restricts the rights of private creditors of a debtor. Therefore, only a limited part of taxpayer assets might be pledged under this law.

Mr. Teriokhin noted that for the first time this draft law separates the functions of tax control bodies (the State Tax Administration) and the bodies whose functions are to impose the penalty on bad taxpayers (the Tax Militia). Today, the State Tax Administration, the Pension Fund, the Chief Audit and Inspection Administration, and the Social Insurance Fund have authorities of tax control. If the Verkhovna Rada adopts this draft law, the controlling functions will be delegated only to three agencies: the State Tax Administration, the Pension Fund, and the Social Insurance Fund. Mr. Teriokhin is sure that in the future only the State Tax Administration

should be the only body performing control functions. It will allow to reduce taxpayer expenses on tax administration. The Tax Militia should be the only enforcement body carrying out administrative and criminal cases. If taxpayer does not pay taxes, the decision on forced asset seizure can be made only in court.

Seminar participants noted that the draft law includes the following positive provisions:

- the amount of tax debt accrued on January 1, 1999, will be written off. The further debt accumulation will be impossible because of the asset liability threat;
- the amount of fine accrued on January 1, 2000, will be written off;
- in any ambiguous situation related to the law interpretation the decision will be rendered in favour of taxpayer;
- taxpayers are not liable if they have acted on the basis of law interpretations officially published by the Tax

Administration even if these interpretations are changed in the future.

Seminar participants believe that this law must regulate methods of tax debt collection, rather than methods of tax returns. The introduction of indirect methods of tax debt estimation may be destructive. The list of cases when indirect methods can be applied is too large. This leads to a risk that tax bodies will abuse while using these methods.

Discussion participants emphasised that the success of the law implementation would depend on how accurately its procedures are written out. The procedures should be absolutely transparent and give no temptation for dishonest behaviour and abuse both to taxpayers and controlling bodies. ■

The seminar on "Problems of Asset Liabilities to the Budget" was co-hosted by the International Centre for Policy Studies and the Coordination and Analysis Center for Ukrainian Business Associations on April 25, 2000.

Next Week

Discussion of the Government Action Plan: Reform in agriculture. A seminar on "Reforms in Agricultural Sector" will be held as a part of public discussions of the Cabinet of Ministers Action Plan at ICPS on May 12. Public discussions are organised by the Secretariat of the Cabinet of Ministers of Ukraine and the International Centre for Policy Studies. The following questions will be discussed by seminar participants:

1. Goals and problems of implementing reforms in agriculture:
 - what are the goals of public policy in agricultural reforms?
 - what are the overall problems acknowledged by society and experts?
 - what are tools for implementing reforms in agricultural sector?
 - what additional measures are very needed but missed in the Government Action Plan?
2. Analysis of resources and obstacles in implementation of reform in agriculture:
 - what are political, economic, social, and technical resources and obstacles to achieving specified objectives?

For information on participating in the public discussions, please contact Olga Kolovitskova, tel.: (380-44) 463-5974, e-mail: ok@icps.kiev.ua, or Andrew Bega, tel.: (380-44) 463-5967, e-mail: ABega@icps.kiev.ua

Tobacco industry support: Pros and cons

The Coordination and Analysis Center for Ukrainian Business Associations, jointly with the Association for Supporting Turnover and Production of Alcohol Drinks and Tobacco Products, hosted a roundtable on "Problems of Tobacco Products Turnover and Development of Domestic Tobacco Industry" at ICPS on April 26. Seminar participants discussed the draft law of Ukraine "On the levy for supporting tobacco industry development in Ukraine"

According to the draft law on "On the levy for supporting tobacco industry development in Ukraine", a 2-percent levy rate should be introduced on sales of domestic tobacco products. This tax will be assigned to the state target fund for supporting producers of raw tobacco and research on tobacco selection. The document also proposes to set a mandatory quota for the use of Ukrainian fermented tobacco in domestic tobacco products and to impose fines on producers of tobacco products who violate this condition.

The authors of the draft law, a people's deputy Ivan Baranchyk and a people's deputy Hryhorii Dovhanchyn, believe that the main objective of the law is to protect domestic producers, ensure employment, and increase budget revenues. According to Mr. Volodymyr Chopyk, general director of the Tiutiun Impeks closed joint-stock company, the introduction of the mandatory quota on tobacco contents is very important as Ukrainian farmers will have sales of raw tobacco.

Producers of tobacco products have an opposite point of view: they agree to buy Ukrainian raw materials but only when the optimal price to quality ratio is maintained. Today Ukrainian raw tobacco is not sorted, raw material lots differ in quality and physical properties. Moreover, Ukrainian tobacco is more expensive (\$1.5–\$1.7), if compared to imported (\$1.2).

The introduction of the mandatory quota will have some negative results. Every cigarette brand has its own tobacco mixture, and consumers have accustomed to its taste. If the tobacco mixture is changed, smokers are likely to respond adversely and, as a result, the demand for domestic tobacco products will reduce significantly.

As a result of this decrease in consumption of domestic tobacco products, raw tobacco producers will in the long run lose the domestic markets. Therefore, the forced use of domestic raw tobacco will help to provide Ukrainian raw tobacco producers with markets only in the short run. ■